

Member's Quarterly

Summer 2019 Edition

Feature

Compensation: Align the Program with Your Philosophy

Look after your most valued investment

While compensation is always recognized as a key element of talent management, surprisingly few organizations take a strategic approach to developing and administering a compensation program that truly supports the recruitment, retention and engagement of the best possible talent. If compensation is not properly managed, it can quickly become a driving force behind diminished productivity and ultimately employee turnover.

Compensation is often implemented in a fragmented, reactive way. I often hear "We need a bonus plan" or "we need a pension plan". By taking a step back and looking at compensation in a holistic way, you can develop a simple philosophy that can in turn guide the development and administration of all of the different aspects of compensation.

Once a philosophy is in place to guide decision making and communicate the approach, the design of a practical and cost-effective compensation program that also responds to the supply and demand pressures of the talent market falls into place much more effectively.

Unless you are in a capital-intensive business, employee compensation is likely eating up at least 70% of your operating budget. It's quite simply your single biggest expense. Consciously leveraging this expense to work as an investment helps make sure that the organization achieves the most value from their people.

Some elements like base pay, vacation and health benefits are generally expected to be at a certain level based on industry norms, but there is often an opportunity to be more flexible and creative with other compensation elements.

Also, it is most important to review your compensation program regularly to ensure it stays current. Keep an eye on what your competitors are offering and stay on top of new trends. Just because you thought you had the best plan in your industry ten years ago doesn't mean that it still outranks the rest today.

Developing your compensation philosophy

A compensation philosophy is an overarching statement about how your organization views and manages compensation. The philosophy helps management, employees and candidates to understand the organization's approach and to trust in the fairness of the process. A well-defined compensation philosophy will guide the development and administration of all compensation programs while offering flexibility to respond to changing business priorities and economic environments. It will also guide consistent decision making, particularly in times of growth when individual pay decisions become less centralized.

To articulate your compensation philosophy, management must consider these strategic questions:

- How the competitive skills market is defined: Where is your staff coming from? Where do they go when they leave your organization?
- How the external skills market influences pay decisions and how the skills market is defined: What types of organizations are relevant? Which geographic regions are relevant?
- How internal equity influences decisions (how people are paid in relation to each other within the organization).



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- How competitive does the organization plan to be? Will it compete at the high end or low end of the pay spectrum or somewhere in between? Will this differ by job family?
- Generally, what factors will affect decisions on pay management? (The financial condition of the organization, difficulty recruiting certain skills, which salary surveys to use, etc.)
- Will there be structured salary ranges?
- How will individual pay decisions be made? (i.e. based on performance, seniority, time to replace, a combination, etc.)

Aligning your compensation programs with your philosophy

Keeping your compensation philosophy at top of mind makes tangible decisions about structure and administration easier:

- Decide what compensation elements to include:
 - ◇ What's most important to the people you are trying to attract or retain? (e.g., your strongest performers, specialized talent)
 - ◇ What are the costs involved?
 - ◇ What fits with your philosophy? This helps you to understand where management, the board or other stakeholders will be most supportive.

We immediately think of salary and bonus, but consider other rewards as well. Depending on the demographics, some elements may be more or less important. For example:

- Vacation allotments
- Health and dental benefits
- Insurances
- Retirement benefits
- Stock options
- Flexible work arrangements
- Other innovative offerings (health & fitness memberships, in-house employee recreation and fitness programs, sporting events, etc.)

Based on your philosophy...

- Do a market analysis to understand the competitive pay and bonus levels in your defined skills market. Assess your current position and identify exposures. To obtain relevant data, participate in the same surveys as relevant comparator organizations.
- Assess talent in similar roles against each other internally and validate any differences in pay.
- Conduct similar research with respect to other rewards elements. For example, knowing that companies provide dental care is not enough. It's important to understand exactly what is covered and to what degree. You need to understand what sort of coverage is generally provided — 80%? 90%? Is major work covered?

These are just a few key steps in developing a strategic approach to compensation — evolving it from your biggest expense to your most valued investment!

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